Alberta

2014-15 **Second Quarter** Fiscal Update and Economic Statement

November 2014

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NOTE: *Amounts presented in tables may not add to totals due to rounding.*

Alberta

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2014-15 SECOND QUARTER FISCAL UPDATE

For the first six months of 2014-15

Method of Consolidation

The Fiscal Plan basis reported in the *2014-15 Second Quarter Fiscal Update and Economic Statement* reports on the same scope, using the same method of consolidation, as presented in *Budget 2014*.

The results of all government departments, funds and agencies, except those designated as government business enterprises, are consolidated on a line-by-line basis. Revenue and expense transactions between consolidated entities have been eliminated.

The accounts of provincial agencies designated as government business enterprises are included on the modified equity basis, computed in accordance with International Financial Reporting Standards applicable to those entities.

The Consolidated Financial Statements basis reported in the Government of Alberta Annual Report adds the annual non-cash change in pension provisions, and the accounts of the Alberta Innovates corporations, Alberta Environmental Monitoring, Evaluation and Reporting Agency and the Crown-controlled SUCH sector organizations (school boards, universities, colleges, technical institutes, and health entities) that are controlled by the government, on a line-by-line basis. Adjustments have been added to reflect the forecast net consolidated impact to the Fiscal Plan basis bottom line of pension provisions and the various excluded entities, in order to provide a forecast of the 2014-15 results on the Consolidated Financial Statements basis.

Basis of Financial Reporting

The consolidated fiscal summary reports revenue (including gains from disposal of tangible capital assets), expense (including amortization, loss on disposal and write-down of tangible capital assets), and surplus / (deficit).

Revenue and expense are recorded using the accrual basis of accounting. Cash received for goods or services which have not been provided by period end is recorded as unearned revenue.

Transfers received for capital purposes, and donated capital assets, are recorded as revenue as the cash is used to acquire capital assets and the donated assets are added to the balance sheet. The accounting policy followed in the Consolidated Financial Statements is to record a "deferred capital contribution," similar to a liability, when the cash or asset is received, and to recognize the revenue over the related asset's useful life (in effect matching the asset's amortization expense). This difference in accounting policy is eliminated through the adjustments referred to previously.

Expense includes the province's cash payments towards the unfunded pension liabilities. Expense on the Fiscal Plan basis excludes the change in the unfunded pension liabilities, which is a non-cash expense. This is included in expense on the Consolidated Financial Statements basis, and an adjustment is made as noted previously.

Debt servicing costs include interest payable, and amortization of issue costs and discounts / premiums on debt issues.

Compliance with Legislation

The *Fiscal Management Act* requires reporting on the Fiscal Plan basis actual results for the first six months of the fiscal year (April 1 to September 30), on or before November 30. The Act gives the President of Treasury Board and Minister of Finance discretion over the form of the report.

The *2014-15 Second Quarter Fiscal Update and Economic Statement* provides comparisons between the six month estimates and actual results for: revenue and operational expense; the operational surplus / (deficit); the Capital Plan; and financing (borrowing) requirements. An updated Alberta economic outlook, with associated assumptions, is also provided.

The report also now includes forecasts for the full fiscal year for these, as well as for total expense, the resulting change in net assets and a balance sheet on the Fiscal Plan basis. An estimate of the surplus / (deficit) on the Consolidated Financial Statements basis has been added.

Under the *Fiscal Management Act*, operating expense increases, excluding those for dedicated revenue-operating expense, collective bargaining or other remuneration settlements, or settlements with First Nations, are limited to 1% of total budgeted ministry operating expense. Actual operational expense for a fiscal year also cannot exceed operational revenue plus any amounts allocated from the Contingency Account.

This report, and results for the first six months of 2014-15, are in compliance with the requirements of the *Fiscal Management Act*.

Fiscal Plan Highlights

Income Statement

On the Fiscal Plan basis, actual results for the first six months (April to September) of 2014-15 produced an operational surplus of $3.3 billion, $1.8 billion higher than estimated in *Budget 2014*, due primarily to increased revenue. The operational surplus for the fiscal year is forecast at $2.7 billion, a $62 million increase from budget.

The change in net assets (surplus / deficit) is revenue minus total expense. Total expense is operational expense plus capital grants and capital debt servicing costs. The surplus / deficit is forecast at $933 million, $154 million lower than budget. The decrease from budget is mainly due to increased operating, endowment, disaster assistance and capital grant expense, partly offset by higher revenue and lower Capital Plan debt servicing costs.

On the Consolidated Financial Statements basis (includes revenue and expense of SUCH sector entities, environmental monitoring agency and Alberta Innovates corporations, and the change in pension provisions), results are forecast as a $576 million surplus, an $878 million improvement from the $302 million 2013-14 deficit. This reflects a $660 million decrease in the change in pension provisions, which were unusually high in 2013-14, an increase of $178 million in the Fiscal Plan basis surplus and an improvement of $40 million in the net adjustment for the SUCH sector.

Revenue is forecast to be $45 billion, $637 million higher than estimated in *Budget 2014*.

- The resource revenue forecast has been increased by $146 million to $9.4 billion, mainly due to lower forecasts for the light-heavy oil price differential and the US-Canadian dollar exchange rate, a higher forecast for the natural gas price, partly offset by a lower forecast for oil prices, higher gas processing costs and lower land lease sales.
- The West Texas Intermediate oil price forecast has decreased from budget by US$6.34 to $88.88 per barrel, and the light-heavy differential forecast has declined from US$25 to US$18.16. The forecast Alberta Reference Price for gas has increased by 72 cents, to Cdn$4.01 per gigajoule, while the exchange rate has been decreased by 0.5 cents, to 90.5US¢/Cdn$.
- The income tax revenue forecast has increased by $324 million from the *Budget 2014* estimate, to $17 billion. Higher-than-expected cash receipts at the end of 2013-14 elevate the base used for forecasting corporate income tax, while higher forecast of primary household income growth has increased personal income tax.
- Other notable revenue variances from *Budget 2014* include: increases of $57 million for the new Canada-Alberta Job Fund, $86 million in investment income and $50 million in Miscellaneous revenue, primarily from land sales and donation; decreases of $57 million in producer and federal government agriculture insurance premiums and a net of $113 million in other federal transfers, primarily due to prior-years' adjustments to CHT.

Operational Expense is forecast at $41 billion, $531 million higher than estimated in *Budget 2014*.

- Operating expense is forecast at $38.7 billion, $233 million higher. Major increases include $57 million for the Canada-Alberta Job Fund, $41 million to combat Mountain Pine Beetle infestations, $35 million for the Alberta Energy Regulator and a net $22 million in Municipal Affairs programs.
- Endowment fund expense is forecast at $335 million, $92 million higher than budget, primarily due to increased Access to the Future Fund grants to post-secondary institutions to match donations.
- Disaster assistance is forecast at $534 million, $179 million higher than budget, with $150 million for forest fire-fighting, $122 million in agriculture indemnities, $32 million primarily for 2014 floods and an increase of $73 million for 2013 Alberta flood assistance.

Capital Grants are forecast to increase $334 million from budget, primarily for 2013 Alberta flood assistance. The unallocated $200 million for flood mitigation, budgeted as capital investment, has now been allocated as capital grants.

Capital Plan debt servicing costs are estimated to be $74 million lower due to a drop of $2.7 billion in direct borrowing requirements.

Balance Sheet

The Contingency Account balance on March 31, 2015 remains as forecast, at $5 billion. As a result, surplus operational cash can be used to reduce direct borrowing for the Capital Plan.

Liabilities for capital projects on March 31, 2015 are forecast to be $11.2 billion, $2.6 billion lower than expected, due to: $0.1 billion higher operational surplus and a reduction of $1.2 billion in 2014-15 net cash requirements; additions of $1.3 billion from 2013-14 year-end results and $0.7 billion in cash borrowed for the Capital Plan last year but not spent; less $0.7 billion in increased 2014-15 Capital Plan spending.

FISCAL PLAN SUMMARY[a]

(millions of dollars)

Income Statement

Fiscal Plan basis

	First 6 months of 2014-15			Fiscal Year			Change
				2013-14	2014-15		from
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Revenue, less:	**22,425**	**24,170**	**1,745**	**45,293**	**44,354**	**44,991**	**637**
Revenue received for capital purposes	(236)	(91)	145	(491)	(560)	**(615)**	(55)
Investment income retained by Heritage Fund	(149)	(180)	(32)	(193)	(297)	**(360)**	(63)
Allocation for Capital Plan debt servicing costs	(210)	(171)	39	(230)	(421)	**(347)**	74
Operational Revenue	**21,831**	**23,728**	**1,897**	**44,379**	**43,076**	**43,669**	**593**
Operational Expense							
Operating expense (net of in-year savings)	19,444	19,415	(29)	37,462	38,477	**38,710**	233
Endowment fund / account expense	99	80	(19)	191	243	**335**	92
Disaster / emergency assistance	1	205	204	142	200	**306**	106
2013 Alberta flood assistance	71	76	5	2,758	155	**228**	73
Amortization / inventory consumption / disposal losses	465	443	(22)	967	997	**1,012**	15
General debt servicing costs	180	188	8	360	360	**372**	12
Total Operational Expense	**20,260**	**20,407**	**147**	**41,880**	**40,432**	**40,963**	**531**
Operational Surplus / (Deficit)	**1,571**	**3,321**	**1,750**	**2,499**	**2,644**	**2,706**	**62**
Revenue				**45,293**	**44,354**	**44,991**	**637**
Total Operational Expense, plus:				**41,880**	**40,432**	**40,963**	531
Capital grants				**2,428**	**2,414**	**2,748**	334
Capital Plan debt servicing costs				**230**	**421**	**347**	(74)
Total Expense				**44,538**	**43,267**	**44,058**	**791**
Change in Net Assets (Surplus / (Deficit))				**755**	**1,087**	**933**	**(154)**

Consolidated Financial Statements basis			Change from 2013-14
SUCH sector / Alberta Innovates corporation net revenue / expense adjustments	**(309)**	**(269)**	40
Pension provisions	**(748)**	**(88)**	660
Surplus / (Deficit)	**(302)**	**576**	**878**

Balance Sheet

Fiscal Plan basis

	At March 31			Change
	2013-14	2014-15		from
	Actual	Budget	Forecast	2013-14
Financial Assets				
Heritage Fund and endowment funds	18,562	18,939	19,013	451
Contingency Account	4,658	5,000	5,000	342
Self-supporting lending organizations	18,205	20,205	20,200	1,995
Other financial assets	12,663	13,673	11,193	(1,470)
Total Financial Assets	**54,088**	**57,817**	**55,406**	**1,318**
Liabilities				
Liabilities for capital projects	8,724	13,790	11,155	2,431
Self-supporting lending organizations	16,358	18,027	18,027	1,669
Other liabilities	7,729	6,985	7,690	(39)
Total Liabilities	**32,811**	**38,802**	**36,872**	**4,061**
Net Financial Assets	**21,277**	**19,015**	**18,534**	**(2,743)**
Capital assets	23,707	27,056	27,383	3,676
Net Assets on Fiscal Plan basis	**44,984**	**46,071**	**45,917**	**933**
Change in Net Assets	**755**	**1,087**	**933**	**178**

[a] The Fiscal Plan basis under the *Fiscal Management Act* does not include revenue or expense of Crown-controlled SUCH sector organizations, the environmental monitoring agency or Alberta Innovates corporations, or changes in pension liabilities, and requires reporting of an Operational Surplus / Deficit. Estimates of the change in net assets on the Fiscal Plan basis, and of the adjustments required to calculate the surplus / deficit on the Consolidated Financial Statements basis, have been added. The 2014-15 Budget asset and liability numbers have been restated to reflect 2013-14 Actual results.

REVENUE

(millions of dollars)

	First 6 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Income Taxes							
Personal income tax	5,497	5,540	43	10,537	11,153	**11,271**	118
Corporate income tax	2,712	2,788	76	5,488	5,495	**5,701**	206
	8,209	**8,328**	**119**	**16,025**	**16,648**	**16,972**	**324**
Other Taxes							
Education property tax	913	941	28	1,860	1,902	**1,902**	-
Tobacco tax	475	471	(4)	922	930	**930**	-
Fuel tax	473	467	(6)	925	965	**965**	-
Insurance taxes	187	188	1	359	381	**384**	3
Freehold mineral rights tax	66	91	25	146	134	**151**	17
Tourism levy	49	49	-	87	90	**90**	-
	2,163	**2,207**	**44**	**4,299**	**4,402**	**4,422**	**20**
Non-Renewable Resource Revenue							
Bitumen royalty	2,773	3,736	963	5,222	5,579	**5,419**	(160)
Crude oil royalty	1,128	1,462	334	2,476	2,019	**2,254**	235
Natural gas and by-products royalty	387	665	278	1,103	823	**898**	75
Bonuses and sales of Crown leases	311	243	(68)	588	623	**607**	(16)
Rentals and fees	81	88	7	173	153	**161**	8
Coal royalty	6	8	2	16	12	**16**	4
	4,686	**6,201**	**1,515**	**9,578**	**9,209**	**9,355**	**146**
Transfers from Government of Canada							
Canada Health Transfer	1,866	1,811	(55)	2,612	3,731	**3,622**	(109)
Canada Social Transfer	731	726	(5)	1,410	1,463	**1,452**	(11)
Agriculture support programs	219	186	(33)	272	332	**308**	(24)
Labour market agreements	60	88	28	186	119	**176**	57
Infrastructure support	126	21	(105)	317	348	**356**	8
2013 Alberta flood assistance	-	-	-	1,582	-	-	-
Other	120	110	(10)	350	241	**240**	(1)
	3,122	**2,942**	**(180)**	**6,729**	**6,234**	**6,154**	**(80)**
Investment Income							
Alberta Heritage Savings Trust Fund	802	1,005	203	2,272	1,604	**1,637**	33
Endowment funds	138	185	47	393	277	**296**	19
Alberta Capital Finance Authority	139	148	9	278	278	**277**	(1)
Contingency Account	55	57	2	80	110	**110**	-
Agriculture Financial Services Corporation	62	65	3	118	124	**122**	(2)
Other	39	47	8	84	79	**116**	37
	1,235	**1,507**	**272**	**3,225**	**2,472**	**2,558**	**86**
Net Income from Government Business Enterprises							
AGLC - Gaming / lottery	741	746	5	1,484	1,483	**1,493**	10
AGLC - Liquor	373	396	23	747	745	**750**	5
Alberta Treasury Branches	155	166	11	280	310	**330**	20
Other	15	22	7	30	28	**42**	14
	1,284	**1,330**	**46**	**2,541**	**2,566**	**2,615**	**49**
Premiums, Fees and Licences							
Motor vehicle licences	257	258	1	492	515	**521**	6
Crop, hail and livestock insurance premiums	338	295	(43)	379	343	**310**	(33)
Energy industry levies	248	234	(14)	215	260	**296**	36
Land titles	44	50	6	86	88	**88**	-
Land and grazing	34	34	-	75	69	**69**	-
Supplementary health benefits premiums	27	24	(3)	50	53	**53**	-
Other	216	209	(7)	412	416	**454**	38
	1,164	**1,104**	**(60)**	**1,709**	**1,744**	**1,791**	**47**
Other							
AIMCo investment management charges	112	137	25	248	225	**225**	-
Fines and penalties	68	75	7	137	136	**136**	-
Refunds of expense	67	83	16	205	141	**132**	(9)
Climate change and emissions management	30	54	24	106	60	**60**	-
Miscellaneous	285	202	(83)	491	521	**571**	50
	562	**551**	**(11)**	**1,187**	**1,083**	**1,124**	**41**
Total Revenue	**22,425**	**24,170**	**1,745**	**45,293**	**44,354**	**44,991**	**637**

OPERATING EXPENSE BY MINISTRY[a]

(millions of dollars)

	First 6 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Aboriginal Relations	100	79	(21)	165	201	**199**	(2)
Agriculture and Rural Development	602	609	7	752	917	**912**	(5)
Culture and Tourism	119	133	14	259	289	**290**	1
Education	3,173	3,127	(46)	6,301	6,505	**6,523**	18
Energy	323	309	(14)	673	678	**713**	35
Environment and Sustainable Resource Development	289	293	4	543	579	**619**	40
Health	8,743	8,828	85	17,102	17,717	**17,717**	-
Human Services	2,042	2,022	(20)	3,875	4,083	**4,142**	59
Infrastructure	254	256	2	505	513	**516**	3
Innovation and Advanced Education	1,397	1,360	(37)	2,609	2,726	**2,737**	11
International and Intergovernmental Relations	20	17	(3)	32	39	**38**	(1)
Jobs, Skills, Training and Labour	81	71	(10)	135	167	**183**	16
Justice and Solicitor General	725	722	(3)	1,271	1,308	**1,315**	7
Municipal Affairs	168	151	(17)	236	277	**299**	22
Seniors	283	271	(12)	545	573	**579**	6
Service Alberta	103	105	2	236	235	**244**	9
Transportation	255	268	13	514	513	**528**	15
Treasury Board and Finance	692	722	30	1,571	1,403	**1,403**	-
Executive Council	14	11	(3)	27	29	**28**	(1)
Legislative Assembly	61	61	-	113	124	**125**	1
Less in-year savings	-	-	-	-	(400)	**(400)**	-
Total Operating Expense	**19,444**	**19,415**	**(29)**	**37,462**	**38,477**	**38,710**	**233**

[a] 2014-15 six month Estimate and 2014-15 Budget numbers have been restated to reflect transfers between government departments made subsequent to *Budget 2014*, as established by Orders in Council 312, 373 and 389/2014 under the *Government Organization Act*, on July 23, September 15 and 25, 2014. 2013-14 Actual numbers have been restated on the *Budget 2014* basis, adjusted for transfers between departments made after *Budget 2014*.

DISASTER / EMERGENCY ASSISTANCE EXPENSE

(millions of dollars)

	First 6 months of 2014-15			Fiscal Year			Change from Budget
	Estimate	Actual	Change	2013-14 Actual	2014-15 Budget	2014-15 Forecast	
Agriculture and Rural Development	1	90	89	2	2	**124**	122
Environment and Sustainable Resource Development	-	115	115	102	-	**150**	150
Municipal Affairs	-	-	-	38	-	**32**	32
Unallocated	-	-	-	-	198	**-**	(198)
Total	**1**	**205**	**204**	**142**	**200**	**306**	**106**
2013 Alberta flood assistance:							
Aboriginal Relations	2	1	(1)	193	5	**7**	2
Agriculture and Rural Development	3	-	(3)	-	17	**-**	(17)
Culture and Tourism	5	1	(4)	4	7	**6**	(1)
Education	8	-	(8)	-	15	**7**	(8)
Environment and Sustainable Resource Development	7	11	4	1	13	**37**	24
Health	8	8	-	-	25	**25**	-
Human Services	6	2	(4)	65	8	**9**	1
Infrastructure	18	40	22	72	35	**104**	69
Municipal Affairs	14	12	(2)	2,416	28	**32**	4
Other	-	1	1	7	2	**1**	(1)
Total 2013 Alberta flood assistance	**71**	**76**	**5**	**2,758**	**155**	**228**	**73**
Total Disaster / Emergency Assistance	**72**	**281**	**209**	**2,900**	**355**	**534**	**179**

ENDOWMENT FUND / ACCOUNT EXPENSE

(millions of dollars)

	First 6 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Agriculture and Rural Development	5	2	(3)	-	9	**9**	-
Health	74	58	(16)	111	111	**116**	5
Innovation and Advanced Education	20	20	-	80	123	**210**	87
Total Endowment Fund / Account Expense	**99**	**80**	**(19)**	**191**	**243**	**335**	**92**

CAPITAL AMORTIZATION EXPENSE

(millions of dollars)

	First 6 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Aboriginal Relations	-	-	-	-	-	-	-
Agriculture and Rural Development	8	8	-	17	17	**17**	-
Culture and Tourism	2	1	(1)	3	3	**3**	-
Education	2	7	5	4	16	**16**	-
Energy	11	10	(1)	21	23	**23**	-
Environment and Sustainable Resource Development	28	27	(1)	51	55	**55**	-
Health	8	10	2	17	18	**18**	-
Human Services	5	5	-	10	11	**11**	-
Infrastructure	50	45	(5)	98	101	**101**	-
Innovation and Advanced Education	3	3	-	5	6	**6**	-
International and Intergovernmental Relations	-	-	-	-	-	-	-
Jobs, Skills, Training and Labour	-	1	1	2	-	-	-
Justice and Solicitor General	12	7	(5)	17	24	**24**	-
Municipal Affairs	2	2	-	2	3	**3**	-
Seniors	14	17	3	26	28	**28**	-
Service Alberta	20	20	-	43	44	**44**	-
Transportation	230	228	(2)	431	459	**459**	-
Treasury Board and Finance	10	8	(2)	16	21	**21**	-
Executive Council	-	-	-	-	-	-	-
Legislative Assembly	1	1	-	2	2	**2**	-
Total Amortization Expense	**406**	**400**	**(6)**	**764**	**832**	**832**	**-**

INVENTORY CONSUMPTION EXPENSE

(millions of dollars)

	First 6 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Environment and Sustainable Resource Development	1	-	(1)	1	1	**1**	-
Health	22	23	1	45	52	**52**	-
Infrastructure	25	5	(20)	26	50	**50**	-
Service Alberta	3	7	4	12	6	**7**	1
Transportation	8	8	-	49	50	**50**	-
Other	-	-	-	15	3	**3**	-
Total Inventory Consumption Expense	**59**	**43**	**(16)**	**148**	**162**	**163**	**1**

DEBT SERVICING COSTS

(millions of dollars)

	First 6 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
General							
Agriculture and Rural Development							
Agriculture Financial Services Corporation	36	36	-	68	73	**73**	-
Seniors							
Alberta Social Housing Corporation	5	5	-	12	10	**10**	-
Treasury Board and Finance							
General government	139	147	8	280	277	**289**	12
	180	**188**	**8**	**360**	**360**	**372**	**12**
Capital Plan							
Education							
School P3 financing costs	14	14	-	27	30	**30**	-
Transportation							
Ring road P3 financing costs	36	36	-	65	72	**72**	-
Treasury Board and Finance							
Direct borrowing for capital purposes	160	121	(39)	138	319	**245**	(74)
	210	**171**	**(39)**	**230**	**421**	**347**	**(74)**
Total Debt Servicing Costs	**390**	**359**	**(31)**	**590**	**781**	**719**	**(62)**

2014–15 FINANCING REQUIREMENTS[a]

(millions of dollars)

	First 6 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Financing Requirements / Completed to Date							
Direct borrowing for capital purposes	2,442	1,266	(1,176)	3,824	4,883	**2,227**	(2,656)
Re-financing of maturing debt	-	-	-	-	905	**905**	-
Term debt borrowing for provincial corporations:							
Agriculture Financial Services Corporation	173	100	(73)	220	345	**345**	-
Alberta Capital Finance Authority	950	1,231	281	3,738	1,900	**1,900**	-
Alberta Petroleum Marketing Commission	50	114	64	-	100	**114**	14
Alberta Treasury Branches	120	200	80	500	240	**240**	-
Total Financing Requirements / Completed to Date	**3,734**	**2,911**	**(823)**	**8,282**	**8,373**	**5,731**	**(2,642)**

[a] 2013-14 Actual direct borrowing for capital purposes includes $600 million issued on March 26, 2014, but settled on April 2, 2014. Since September 30th, debt has been issued for refinancing of maturing borrowing for capital purposes ($291 million) and for Agriculture Financial Services Corporation ($25 million).

INVENTORY ACQUISITION

(millions of dollars)

	First 6 months of 2014-15			Fiscal Year			Change from
				2013-14	2014-15		
	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Environment and Sustainable Resource Development	1	1	-	1	1	**1**	-
Health	18	26	8	44	52	**52**	-
Infrastructure	36	12	(24)	17	73	**78**	5
Service Alberta	3	7	4	12	6	**7**	1
Transportation	18	12	(6)	49	50	**50**	-
Other	-	-	-	12	2	**2**	-
Total Inventory Acquisition	**76**	**58**	**(18)**	**135**	**184**	**190**	**6**

Capital Plan Highlights

Capital Plan actual results for the first six months of 2014-15 were lower than estimated in *Budget 2014*, with spending of $2.9 billion $634 million less than expected. This mainly reflects changes in project progress, re-profiling or timing of grants. No projects have been cancelled.

The 2014-15 Capital Plan is forecast at $7.3 billion, a $673 million increase from budget, primarily due to carrying over of 2013-14 projects, re-profiling, and adding school projects.

Direct borrowing for the Capital Plan is now estimated at $2.2 billion. This is $2.7 billion lower than budget, due to improved 2013-14 operational results, cash borrowed in 2013-14 but not spent (retained in the Capital Plan financing account), and an increased forecast for available surplus operational cash in 2014-15, partially offset by the increased spending.

CAPITAL PLAN SUMMARY

(millions of dollars)

	First 6 months of 2014-15			Fiscal Year			Change
				2013-14	2014-15		from
Summary	Estimate	Actual	Change	Actual	Budget	Forecast	Budget
Capital Plan Spending	**3,558**	**2,924**	**(634)**	**5,002**	**6,599**	**7,272**	**673**
Capital Plan Financing							
Revenue received for capital purposes	236	91	(145)	491	560	**615**	55
Retained income of funds and agencies	85	85	-	50	169	**173**	4
Book value of capital asset disposals / other	7	7	-	76	14	**13**	(1)
Alternative financing (P3s)	103	103	-	332	206	**227**	21
Direct borrowing	2,442	1,266	(1,176)	3,824	4,883	**2,227**	(2,656)
Transfer of surplus operational cash	686	1,672	986	-	767	**3,344**	2,577
Capital Plan financing account withdrawal / (deposit)	-	(300)	(300)	229	-	**673**	673
Total Capital Plan Financing	**3,558**	**2,924**	**(634)**	**5,002**	**6,599**	**7,272**	**673**
By Ministry							
Aboriginal Relations	-	6	6	-	-	**11**	11
Agriculture and Rural Development	32	27	(5)	37	40	**45**	5
Culture and Tourism	14	11	(3)	55	51	**51**	-
Education	376	302	(74)	504	624	**1,202**	578
Energy	108	5	(103)	139	175	**176**	1
Environment and Sustainable Resource Development	54	30	(24)	164	111	**146**	35
Health	33	17	(16)	80	111	**111**	-
Human Services	1	5	4	5	6	**7**	1
Infrastructure	306	232	(74)	605	1,122	**1,017**	(105)
Innovation and Advanced Education	220	214	(6)	70	246	**249**	3
International and Intergovernmental Relations	-	-	-	-	-	-	-
Jobs, Skills, Training and Labour	-	-	-	1	1	**1**	-
Justice and Solicitor General	68	43	(25)	56	135	**138**	3
Municipal Affairs	1,074	1,217	143	1,357	1,436	**1,444**	8
Seniors	69	35	(34)	26	137	**124**	(13)
Service Alberta	7	9	2	38	49	**63**	14
Transportation	1,099	722	(377)	1,617	1,961	**1,991**	30
Treasury Board and Finance	14	14	-	38	27	**27**	-
Executive Council	-	-	-	-	-	-	-
Legislative Assembly	2	2	-	5	4	**4**	-
2013 Alberta flood assistance							
Culture and Tourism	1	1	-	1	2	**1**	(1)
Education	13	-	(13)	13	25	**24**	(1)
Environment and Sustainable Resource Development	17	28	11	175	35	**324**	289
Infrastructure	11	-	(11)	-	24	**10**	(14)
Municipal Affairs	16	-	(16)	12	32	**27**	(5)
Transportation	24	4	(20)	4	46	**78**	32
Mitigation projects	-	-	-	-	200	-	(200)
Total Capital Plan	**3,558**	**2,924**	**(634)**	**5,002**	**6,599**	**7,272**	**673**

[a] 2014-15 six month Estimate and 2014-15 Budget numbers have been restated to reflect transfers between government departments made subsequent to *Budget 2014*, as established by Orders in Council 312, 373 and 389/2014 under the *Government Organization Act*, on July 23, September 15 and 25, 2014. 2013-14 Actual numbers have been restated on the *Budget 2014* basis, adjusted for transfers between departments made after *Budget 2014*.

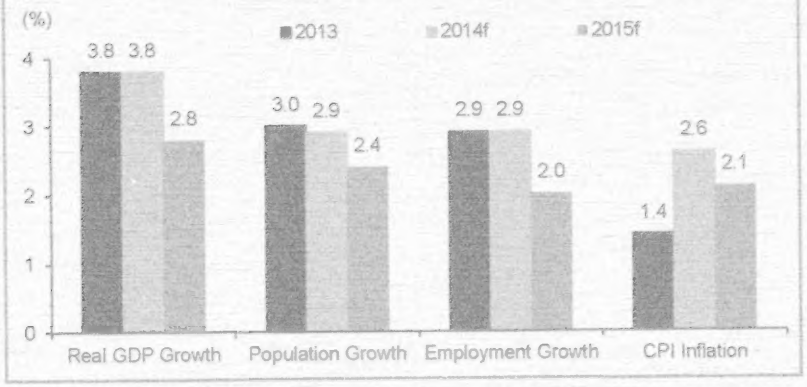
ECONOMIC OUTLOOK

Solid growth expected despite oil price decline

The Alberta economy continues to grow at a persistently high rate. Real GDP is forecast to expand by 3.8% in 2014, the fifth straight year above its historic trend of 3%, supported by exports and an expanding household sector. This forecast remains unchanged from the *First Quarter Update*, but up slightly from *Budget 2014*. Alberta's robust expansion has come at a time of weakness in the global economy, when growth has been slow and uneven. Slumping demand has kept global inflationary pressures low, while dimmer prospects elsewhere have encouraged record numbers of people to migrate to Alberta. These factors have prevented the economy from overheating.

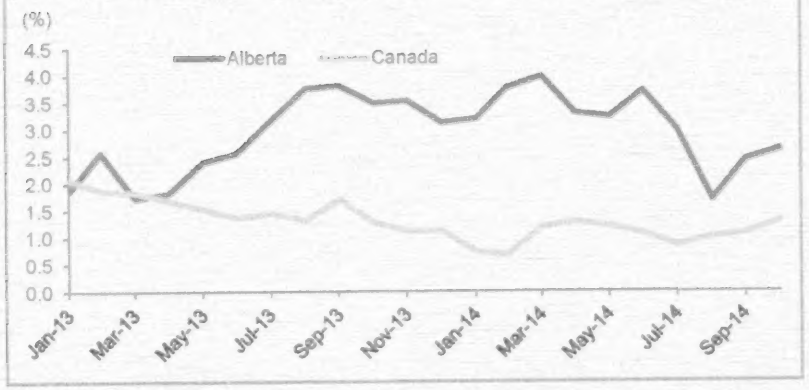
Recent developments in global energy markets, however, are expected to reduce the momentum of Alberta's economy heading into 2015. World oil prices have dipped since the *First Quarter*, reaching the lowest level since 2012. Lower oil prices will weigh on the value of Alberta's exports and nominal GDP, while reducing corporate profits and government revenue. The effects of lower world oil prices have been partly cushioned by a weaker Canadian dollar and narrower light-heavy oil price differential. As in the past, the magnitude of lower oil prices on Alberta's real economy is expected to be much less pronounced than on revenues (see pg. 14-15). Real GDP growth in 2015 is forecast to be a strong, but more moderate 2.8%, down from 3.0% at *Budget 2014* (Figure 1).

Figure 1. Forecast for Key Alberta Indicators



Sources: Statistics Canada and Alberta Treasury Board and Finance

Figure 2. Alberta Employment Growth (year-over-over)



Source: Statistics Canada

Alberta Household Sector

Labour market moderating

Alberta continues to lead the provinces in job growth, although employment gains have eased in recent months (Figure 2). Employment is forecast to grow by 2.9% in 2014, unchanged from the *First Quarter*, but up from 2.6% at *Budget 2014*. Heading into 2015, employment growth is expected to be a more moderate 2.0%, down slightly from *Budget 2014*. Wage growth, which has been exceptional this year, is also expected to ease in 2015, but continue to far outpace inflation.

Solid population gains

Favourable labour market conditions are attracting people to the province, but not quite at the blistering pace set over the last few years. Alberta's population growth for the 2014 census year came in at 2.9%, slightly lower than forecast in the *First Quarter*. Growth in 2013 was revised down to 3.0% as part of Statistics Canada's annual revisions. These factors, combined with the expectation that interprovincial migration will ease in the coming months, put the forecast of Alberta's 2015 population growth at a strong 2.4%. This is down from the *First Quarter*, but in line with *Budget 2014*.

ECONOMIC OUTLOOK

Housing market fuels growth

Robust wage growth, along with gains in employment and population, have propelled Alberta's housing market. Housing starts have seen double-digit gains, led by growth in multi-unit construction. Starts have been adjusted up from *Budget 2014* to 39,300 in 2014 and 36,900 in 2015 to reflect continued strength in the housing market.

Consumers to keep spending

Retail sales are up a solid 8.5% year-to-date, well ahead of the pace expected at *Budget 2014*. Bolstered by higher anticipated primary household income in 2014, consumer spending will make a strong contribution to growth this year and remain robust in 2015. Consumer price growth has held steady at just over 2.5%. Inflationary pressures are expected to ease on lower energy prices, and consumer prices are forecast to grow by 2.1% in 2015.

Alberta Business Sector

Oil prices drop

World oil prices have fallen over 25% since June. Supply growth, particularly from US tight oil plays, is outstripping weak global demand. Ongoing geopolitical tensions in the Middle East, North Africa, and Ukraine have not been able to offset the price slide. As a result, the forecast for WTI is now US$88.88/bbl in 2014-15, down $8 from the *First Quarter*. In contrast, the price for Alberta's heavy oil benchmark WCS has been supported by strong heavy oil refinery demand, pipeline expansions, and the increasing use of crude-by-rail. These factors have led to a narrower WTI-WCS differential forecast, from US$25/bbl at *Budget 2014* to around US$18/bbl for 2014-15.

Canadian dollar weakens

The Canadian dollar has drifted downward since *First Quarter*. This is due to a strengthening US dollar, expectations that interest rate increases in Canada will lag the US, and a general weakness in commodity prices. The exchange rate forecast for 2014-15 has been lowered to 90.5 US¢/Cdn$. A weaker dollar bolsters exports and resource revenue.

Business activity stays strong

Exports and manufacturing shipments have posted exceptional growth year-to-date, led by energy products, but also due to broad-based gains across several product categories (Figure 3). This has resulted in an upward revision to corporate profits (net operating surplus) for 2014. Exports will continue to be supported by higher crude production and growth in agriculture, food, and forestry products. However, lower oil prices are expected to pull down export values and net corporate operating surplus next year.

Construction leads investment

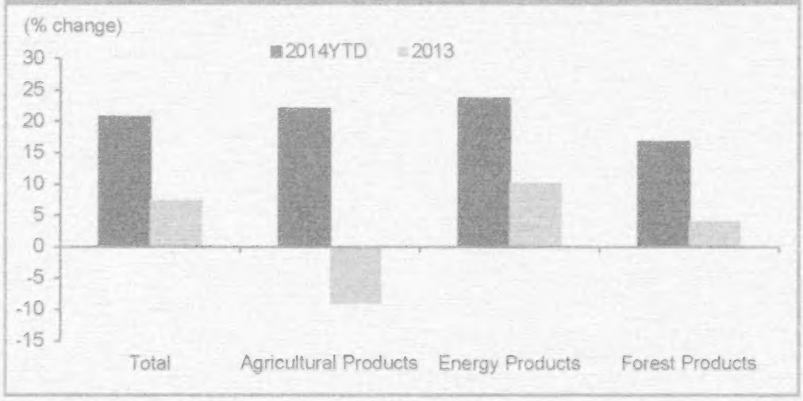
Non-residential construction in the province is on track for another solid year. Spending on non-residential buildings is up an impressive 8.0% through three quarters, led by the commercial sector. Building permits point to more gains in commercial investment, with intentions strong for Edmonton and Calgary. In the energy sector, lower oil prices are expected to weigh on conventional oil investment. Conventional producers react more quickly to changes in cash flow than oil sands producers, who have committed capital and longer investment horizons. Oil and gas investment is expected to be a slight drag on growth in 2015.

External Risks

Global economic conditions are slowly improving, but with mixed results. Given Alberta's high reliance on trade and commodities, the outlook is subject to a number of risks:

- There is downside risk for Alberta's economy if oil prices remain lower for a prolonged period, affecting employment, business investment, and housing.
- Escalating geopolitical events, such as tensions in Ukraine or Iraq, could dampen global economic growth and increase financial market volatility.
- Lower interprovincial migration could lower housing demand and consumer spending.
- On the upside, a sudden improvement in oil prices, for example due to OPEC supply cuts, could lift economic activity while putting upward pressure on costs.

Figure 3. Growth in Alberta Exports by Select Categories



Source: Statistics Canada

Key Energy and Economic Assumptions

Fiscal Year Assumptions	2013–14 Actual	2014–15 6 Month Actual	2014–15 Fiscal Year		
			Budget	1st Quarter	2nd Quarter
Prices					
Crude Oil Price					
WTI (US$/bbl)	99.05	100.08	95.22	96.69	88.88
Alberta Wellhead (Cdn$/bbl) [a]	91.23	96.59	88.02	91.54	88.02
WCS @ Hardisty (Cdn$/bbl)	80.11	87.13	77.18	80.64	78.14
Natural Gas Price					
Alberta Reference Price (Cdn$/GJ)	3.28	3.97	3.29	4.14	4.01
Production					
Conventional crude oil (000s barrels/day)	583	n/a	583	580	582
Raw bitumen (000s barrels/day)	2,221	n/a	2,347	2,344	2,300
Natural gas (billions of cubic feet)	4,524	n/a	3,737	3,837	4,122
Interest rates					
3-month Canada treasury bills (per cent)	0.95	0.93	1.00	1.00	1.00
10-year Canada bonds (per cent)	2.40	2.36	3.05	2.70	2.70
Exchange Rate (US¢/Cdn$)	94.9	91.8	91.0	92.5	90.5

Calendar Year Assumptions	2013	2014 Calendar Year			2015 Calendar Year		
		Budget	1st Quarter	2nd Quarter	Budget	1st Quarter	2nd Quarter
Gross Domestic Product							
Nominal (millions of dollars)	338,166	352,143	359,994	362,852	368,690	371,702	366,118
per cent change	7.1	6.1	7.7	7.3	4.7	3.3	0.9
Real (millions of 2007 dollars)	302,966	308,980	311,339	314,479	318,162	321,009	323,284
per cent change	3.8	3.7	3.8	3.8	3.0	3.1	2.8
Other Indicators							
Employment (thousands)	2,211	2,268	2,275	2275	2,317	2,325	2,321
per cent change	2.9	2.6	2.9	2.9	2.2	2.2	2.0
Unemployment rate (per cent)	4.6	4.4	4.6	4.6	4.3	4.5	4.5
Average Weekly Earnings (per cent change)	3.5	3.4	3.6	3.8	3.5	3.6	3.2
Primary Household Income (per cent change)	7.7	6.7	7.3	7.4	6.2	6.4	6.0
Net Corporate Operating Surplus (per cent change)	7.8	8.4	16.0	11.0	4.0	-5.6	-17.1
Housing starts (number of units)	36,011	38,300	38,800	39,291	36,800	37,100	36,913
Alberta Consumer Price Index (per cent change)	1.4	2.2	2.6	2.6	2.1	2.5	2.1
Population (July 1st, thousands)	4,007	4,140	4,148	4,122	4,242	4,263	4,219
per cent change	3	2.9	3.1	2.9	2.5	2.8	2.4

[a] Refers to the average price per barrel of Alberta light, medium and heavy oil.

VOLATILITY

Strength amid resource price volatility

Alberta's resource-based economy remains exposed to a high degree of price volatility, resulting in large fluctuations in incomes and government revenue. The economy, however, has demonstrated resiliency to transitory price changes over the past three decades.

Income volatility

Revenue highly sensitive to price swings

Natural resources have long been the primary driver of Alberta's economy. The share of provincial gross domestic product (GDP) directly derived from agriculture, forestry and oil and gas has averaged 27% over the last three decades, and 25% in 2013. The energy sector has been the principal driver, accounting for the bulk of business investment and exports.

Alberta's reliance on resources has subjected the province to a high degree of price volatility. Prices influence the value of goods and services produced, which in turn determines provincial income, or nominal GDP. Figure 1 shows the tight relationship between growth in energy prices and nominal GDP. Similar levels of volatility are seen in other resource-based provinces, including Saskatchewan and Newfoundland and Labrador.

Not surprisingly, the provinces with the most volatile income also have the most volatile government revenues. Volatility in Alberta own source revenue (government revenue excluding federal transfers) consistently ranks among the highest in Canada, along with Newfoundland and Labrador and Saskatchewan (Figure 2). Alberta's high revenue volatility is driven almost entirely by non-renewable resource revenues, which made up around 20% of total government revenue in 2013-14. For the other major revenue sources, such as personal income tax, Alberta's volatility is comparable to other provinces (Landon and Smith, 2010)[1].

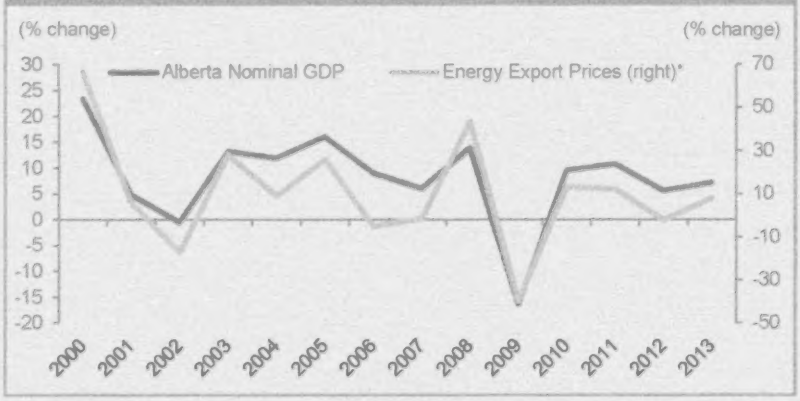
1 *Landon, S and C. Smith (2010). Energy Prices and Alberta Government Revenue Volatility. CD Howe Commentary No 313.*

Economic performance

Real economic growth more stable

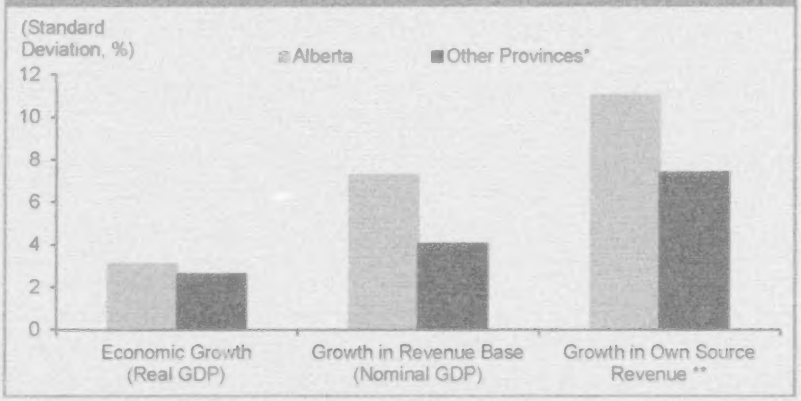
In Alberta, there is an especially large gap between the volatility of economic growth and the volatility of income and revenues. Alberta's real GDP growth has been only slightly more variable than the other provinces since 1982, while a much larger volatility

Figure 1. Alberta Nominal GDP and Energy Prices



Sources: Statistics Canada and Alberta Treasury Board and Finance calculations
* Alberta current weight export index

Figure 2. Volatility of Various Measures, 1983 to 2013



Source: Statistics Canada
* Unweighted average of provincial standard deviations
** Based on fiscal years between 1987-88 to 2013-14

VOLATILITY

gap is observed for nominal GDP and own source revenue (Figure 2).

Weathering volatility

Despite ongoing price swings, Alberta has, for a long period, sustained its position as Canada's most prosperous province. Per capita GDP, a broad measure of living standards, has ranked top among the provinces over the last 30 years (Figure 3).

Along with a long-term upward trend in resource prices, strong economic growth has underpinned Alberta's rising living standards. Alberta has outperformed all provinces in real GDP growth since the 2009 recession, ranking among the highest growth jurisdictions in North America. In the 1990s, the province led all provinces in economic growth, and in the 2000s lagged only Newfoundland and Labrador. High growth has been made possible by large inflows of capital, particularly in the energy sector, but also in a range of manufacturing and service industries.

Alberta's long-standing economic strength has come despite a series of challenges in recent years. In 2008, at the depth of the financial crisis, world oil prices collapsed to just under $US40/bbl. In 2009, as investment pulled back, Alberta's economy shrank by 4.1%, only to recover all the lost output the following year. In 2012, WTI oil prices dipped below $US80/bbl and the differential widened amid severe pipeline constraints. That year, the economy expanded by 4.5%. Alberta's other resource sectors, agriculture and forestry, have also experienced large swings in market conditions.

Not all changes have been transitory. In the natural gas industry, new drilling technologies have flooded North America with gas in recent years. This transformation pulled down prices and sharply lowered production. Alberta's energy sector responded by shifting to oil production, particularly in the oil sands, which has more than offset the downturn in gas.

Growth without overheating

A critical challenge for Alberta's fast-growing economy is to maintain growth without hitting major capacity constraints. In the past, Alberta's expansion has been hampered by periods of overheating, often caused by labour shortages and characterized by rapid cost escalation, as during the 2004 to 2008 boom.

In the latest expansion, growth since 2010 has actually outpaced the last boom, but without the usual cost pressures and generalized labour market shortages that typically accompanies such high growth. This more sustained expansion has in large part been made possible by record migration, which has helped fill job vacancies in the province (see *First Quarter feature*).

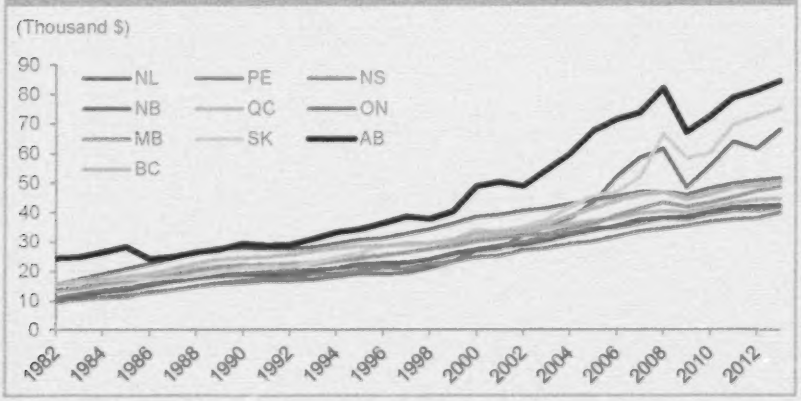
Migration will remain critical to Alberta's economic growth. Using its macroeconomic model, Treasury Board and Finance (TBF) estimates that a reduction in net migration of about 15,000 per year from its expected average pace of 55,000 would shave an average of 0.3 percentage points off GDP growth per year between 2015 and 2020, while raising wage and cost pressures.

Implications

The recent drop in oil prices highlights Alberta's high exposure to global risks. As before, the pullback will weigh on government revenues and subtract from corporate profits and household incomes; however, as demonstrated by Alberta's past economic resiliency, the impact of lower oil prices on the real economy is expected to be much more muted.

The Alberta economy has a great deal of momentum. A key driver is the oil sands, where projects are based on long term price expectations and most have already committed large amounts of capital. These projects are increasingly shifting to the production phase, which will fuel Alberta's exports. Continued growth is also expected in Alberta's manufacturing and service industries. Though weaker prices will take some heat out of the economy next year, real GDP growth is forecast to remain strong, at just under 3%.

Figure 3. Nominal GDP per Capita



Source: Statistics Canada